

## Message Text

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ACTION OPIC-06

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E.O. 11652: N/A

TAGS: EINV, JM

SUBJECT POLITICAL RISK CONVERTIBILITY INSURANCE (OPIC)

REF: A. KINGSTON A-1699; B. KINGSTON 3126

1. BEGIN SUMMARY: SUBSTANTIAL DELAYS HAVE OCCURRED DURING THE LAST SIX MONTHS BETWEEN THE SUBMISSION OF APPLICATIONS FOR FOREIGN EXCHANGE AND THE ACTUAL RELEASE OF EXCHANGE BY THE BANK OF JAMAICA. THE FOREIGN EXCHANGE CRISIS, ALREADY SEVERE IN 1977, CAME TO A HEAD WHEN THE IMF SUSPENDED ITS STAND-BY IN JANUARY OF 1978. A NEW GOJ-IMF AGREEMENT HAS BEEN NEGOTIATED AND WILL BE PUT INTO FORCE AS SOON AS IT IS APPROVED BY THE IMF BOARD OF DIRECTORS. IMPLEMENTATION OF THE AGREEMENT WILL MAKE AVAILABLE TO JAMAICA SUBSTANTIAL AMOUNTS OF FOREIGN EXCHANGE THAT SHOULD ALLEVIATE THE PRESENT CRISIS AND REDUCE THE INTERVAL BETWEEN SUBMISSION OF APPLICATION AND RECEIPT OF EXCHANGE. HOWEVER, THE COUNTRY'S BALANCE OF PAYMENTS SITUATION WILL REMAIN SERIOUS AND TIGHT FOREIGN EXCHANGE MANAGEMENT WILL CONTINUE OVER THE NEXT THREE YEARS. AS A RESULT, OPIC MAY WISH TO CONSIDER WRITING INTO ITS CONTRACT SPECIAL LANGUAGE DEFINING A LONGER WAITING PERIOD THAN THE STANDARD THIRTY TO SIXTY DAYS DESCRIBED IN LIMITED OFFICIAL USE

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REF. A. AT THIS POINT, WE RECOMMEND CAUTION IN EXTENDING SUBSTANTIAL AMOUNTS OF RISK CONVERTIBILITY INSURANCE. ANY DECISION TAKEN AT THIS TIME SHOULD BE REVIEWED IN THREE MONTHS. END SUMMARY

2. SINCE LATE LAST YEAR, DELAYS OF SEVERAL MONTHS HAVE OCCURRED BETWEEN THE SUBMISSION OF APPLICATIONS

FOR FOREIGN EXCHANGE AND THE ACTUAL RELEASE OF FOREIGN EXCHANGE BY THE BANK OF JAMAICA. THE COUNTRY' EXPERIENCED A SERIOUS BALANCE OF PAYMENTS PROBLEM IN 1976 AND 1977. IN JANUARY 1977, THE GOVERNMENT INTENSIFIED ITS TRADE AND EXCHANGE RESTRAINTS AND A STAND-BY AGREEMENT WITH THE IMF WAS NEGOTIATED IN JULY OF 1977. THE FOREIGN EXCHANGE CRISIS CAME TO A HEAD WITH THE SUSPENSION OF THE IMF STAND-BY AS A RESULT OF THE GOJ'S FAILURE TO MEET SOME OF THE AGREED TARGETS. THE WORSENING FOREIGN EXCHANGE CRISIS AND THE OPERATION OF JAMAICA'S IMPORT LICENSING AND FOREIGN EXCHANGE CONTROL SYSTEMS WERE DESCRIBED IN REF. B. THE SHORTAGE OF FOREIGN EXCHANGE HAS BEEN SO SEVERE THAT, IN MANY CASES, FOREIGN EXCHANGE COULD NOT BE OBTAINED EVEN THOUGH IMPORT LICENSES HAD BEEN ISSUED AND BANK OF JAMAICA APPROVAL HAD BEEN OBTAINED. IN SEVERAL INSTANCES, INTEREST PAYMENTS ON PRIVATE DEBTS COULD NOT BE REMITTED.

3. THE COUNTRY'S FOREIGN EXCHANGE CRISIS SHOULD BE ALLEVIATED WITH THE IMPLEMENTATION OF THE NEW IMF-GOJ AGREEMENT (WHICH WAS APPROVED BY THE GOJ HOUSE OF REPRESENTATIVES ON MAY 17 AND IS NOW AWAITING APPROVAL BY THE IMF BOARD OF DIRECTORS). THE GOVERNMENT PLANS TO GRADUALLY LIBERALIZE FOREIGN EXCHANGE CONTROLS AND ELIMINATE THEM BEFORE THE END OF THE THREE-YEAR LIMITED OFFICIAL USE

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PROGRAM. HOWEVER, THE FOREIGN EXCHANGE SITUATION IS EXPECTED TO REMAIN TIGHT FOR SOME TIME, PERHAPS FOR ANOTHER THREE YEARS; AND THE IMPORT LICENSING SYSTEM WILL REMAIN IN FORCE IN THE FORESEEABLE FUTURE.

4. AS PART OF THE CURRENT PROGRAM TO COME TO TERMS WITH ITS BALANCE OF PAYMENTS AND UNEMPLOYMENT PROBLEMS, THE GOVERNMENT IS INTRODUCING MEASURES TO ENCOURAGE FOREIGN INVESTMENT. IN MINISTRY PAPER NO. 10 TABLED ON MAY 9, THE GOVERNMENT PLEDGED THAT "ANY FOREIGN CAPITAL BROUGHT INTO JAMAICA BY NON-RESIDENTS MAY BE REGISTERED AT THE BANK OF JAMAICA, AS ALSO MAY REINVESTED PROFITS AND CAPITAL GAINS", WHICH WILL "ENSURE ENTITLEMENT TO FOREIGN EXCHANGE IN CASE OF REPATRIATION OF THE ORIGINALLY INVESTMENT PLUS REINVESTMENTS AND CAPITAL GAINS ... DIVIDENDS WILL CONTINUE TO BE FREELY TRANSFERABLE, SUBJECT TO APPROPRIATE DOCUMENTATION".

5. THE MINISTRY PAPER FURTHER NOTES THAT "IN THE AREA OF CURRENT PAYMENTS, THE PRESENT DIFFICULTIES APPEAR TO PRECLUDE MUCH IMMEDIATE PROGRESS TOWARD LIBERALIZATION". HOWEVER, AS THE PAYMENT SITUATION IMPROVES, "THE

GOVERNMENT INTENDS TO LIBERALIZE GRADUALLY THE REMAINING RESTRICTIONS ON PAYMENTS AND TRANSFERS FOR CURRENT INTERNATIONAL TRANSACTIONS AND TO ELIMINATE THEM BEFORE THE END OF THE THREE-YEAR PROGRAM". THE GOVERNMENT HAS ALSO INITIATED MEASURES TO GRADUALLY UNBLOCK ARREARS ON PAYMENTS DUE BY THE PRIVATE SECTOR.

6. THE GOVERNMENT'S ABILITY TO SUCCESSFULLY IMPLEMENT ITS ECONOMIC RECOVERY PROGRAM AND TO MOVE IN THE DIRECTION INDICATED ABOVE REMAIN TO BE TESTED. GIVEN THE BACKGROUND OF LONG DELAYS IN OBTAINING FOREIGN EXCHANGE THAT PREVAILED IN RECENT MONTHS AND THE FACT THAT FOREIGN EXCHANGE WILL CONTINUE TO BE SCARCE, WE RECOMMEND PRUDENCE IN THE AREA OF EXTENDING SUBSTANTIAL LIMITED OFFICIAL USE

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AMOUNTS OF POLITICAL RISK CONVERTIBILITY INSURANCE. OPIC'S CONTRACT MAY INCLUDE LANGUAGE DEFINING A LONGER WAITING PERIOD THAN THE STANDARD THIRTY DAYS (FOR ACTIVE BLOCKAGE) AND SIXTY DAYS (PASSIVE BLOCKAGE) DESCRIBED IN REF. A. IT IS RECOMMENDED THAT ANY DECISION TAKEN AT THIS TIME OF UNCERTAINTY BE REVIEWED IN THREE MONTHS.  
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## Message Attributes

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